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August 13, 2004

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, TW-A325
Washington, DC 20554

Re: WC Docket 02-112, Sunset of the BOC Separate Affiliate and Related Requirements

Dear Ms. Dortch,

BellSouth recently met with Wireline Competition Bureau staff to discuss the enterprise market for local, long distance, and data communications. (See exparte filing in this proceeding dated July 23, 2004.) At the request of staff, BellSouth is now filing the attached document addressing certain characteristics of the enterprise telecommunications market in more detail.

This notice is being filed pursuant to Sec. 1.1206(b)(2) of the Commission's rules. If you have any questions regarding this filing please do not hesitate to contact me.

Sincerely,

Mary L. Henze

Mary L. Henze

cc: B. Dever
M. Carowitz
W. Cox
B. Kehoe
B. Childers

Characteristics of the Enterprise Telecom Market

1. Definition of the Enterprise customer

- An enterprise customer is a multi-location, business with 100 plus employees
- Approximately 90% cover a national footprint
- Many are global concerns

2. Size of the Enterprise market

- Current market research reports the spend for business (Small, Medium and Enterprise) market, local and long distance, is between $100 Billion and $118 Billion annually.

- The Enterprise portion of the total business market is estimated to be between $63 Billion and $75 Billion annually or 62% of the total business market.

- The average estimate for the business national long distance market is $43 Billion annually. The Enterprise portion of this market is estimated to be between $30 Billion and $35 Billion annually.

- Over the last 10 years the ratio of voice to data spend has gone from 70:30 closer to 50:50 trending more heavily towards data revenue due to accelerating voice price compression and converged VoIP and voice over data networks.

- Data networking is heavily interLATA by definition; connecting multiple locations together with a data service. Frame Relay is still the most widely deployed data networking technology

Sources:

1. *"Enterprise Telecom: A Comeback Begins," Lehman Brothers, November 17, 2003*
2. *"U.S. Telecommunications: The Art of War," J.P. Morgan, November 7, 2003.*
3. *"U.S. Landline Telephony Services Market Update 2003," January 30, 2003.*

Note: All estimates in above section are: annual; for the 2004 time period; include wireline only (no wireless); and exclude equipment professional services and other non-recurring charges.

3. Characteristics of the Enterprise customer

A. Primary characteristics of enterprise customers:

- Historically have a primary and secondary provider for all telecom services.
- Large enough to have IT/Telecom staffs capable of managing complex networks and multiple vendors.
- Make buying decisions based on relationship strengths of the existing provider, service and price competitiveness.
- Use multiple vendors to leverage price and service.

B. It is difficult to unseat the incumbent provider from a data network for several reasons:

- Applications riding on the network tend to be critical to the corporation (they are not willing to undergo disruption without a strong benefit),
- There is little differentiation between provider services from a feature functionality set
- Frame Relay networks create a closed user group environment so in order for new sites to interoperate they need to be added by the existing provider.

C. Customers tend to consider changing providers under the following circumstances:

- They are considering a technology change that requires new facilities (e.g. Private Line to Frame Relay or Frame Relay to IP VPN or VoIP)
- They have had consistent service problems with the existing provider (e.g. network outages, repeat billing issues, poor customer services)
- While pricing is most often mentioned as a potential reason to switch providers, customers more often use pricing as a tool in contract negotiations to drive down the existing providers price before they re-contract the service. The existing provider has the most to lose by stranding existing assets and losing revenues, and thus will compete vigorously on price.

4. How BOCs compete in the Enterprise market

A. Enterprise customers typically contract for most of their telecommunications services.

- These contracts contain Volume and Term Agreements, Bulk Service Agreements, Tariff 12 arrangements, etc. and have been in place over the last two decades.
- These arrangements offer the best pricing options for the customers and protect revenues for the provider.
- For this reason, relative market share positions among the big carriers has not changed significantly for the last 20 years.

B. In a market with little growth, growth can only be achieved by taking share or growing within the existing customer base as the customers expand.

C. With 271 relief the BOCs can now compete for Enterprise business.

- At any given time one to two thirds of the total market annual revenues are under contract.
- BOCs can participate in bids for new services, services not under contract or open bids for expired contracts.
- In most cases, BOCs are hoping to gain a small portion of an enterprise customer's business to "prove in" as a good provider and work over time to grow within the account.
- BOCs, however, are not likely to be awarded large portions of the customer's business.

D. BOCs have had some success in the Small/Medium Business (SMB) market due to the more regional/local nature of these customers.

- However, according to Lehman Brothers, carriers with greater penetration in the high-end Enterprise market will be more financially viable going forward than carriers with a strong SMB position.
- As the table below indicates, no BOCs appear in the top ranks of carriers serving the business market where the bulk of revenues are earned in the high-end and long distance segment.

Percent of Carrier Business Revenues by Customer & Product Segment

Carriers	Large Enterprise	Wholesale	Total High-end	Small/Med Local	Small/Med L.D.
AT&T Business	52%	24%	76%	0%	24%
MCI Commercial	39%	33%	72%	0%	28%
FON-Commercial	41%	22%	62%	23%	14%
Level 3	0%	100%	100%	0%	0%
Carrier Average	45%	30%	75%	2%	23%

[Data Source: Lehman Brothers, November 17, 2003.]